

## World Watch

By Krishen Rangasamy

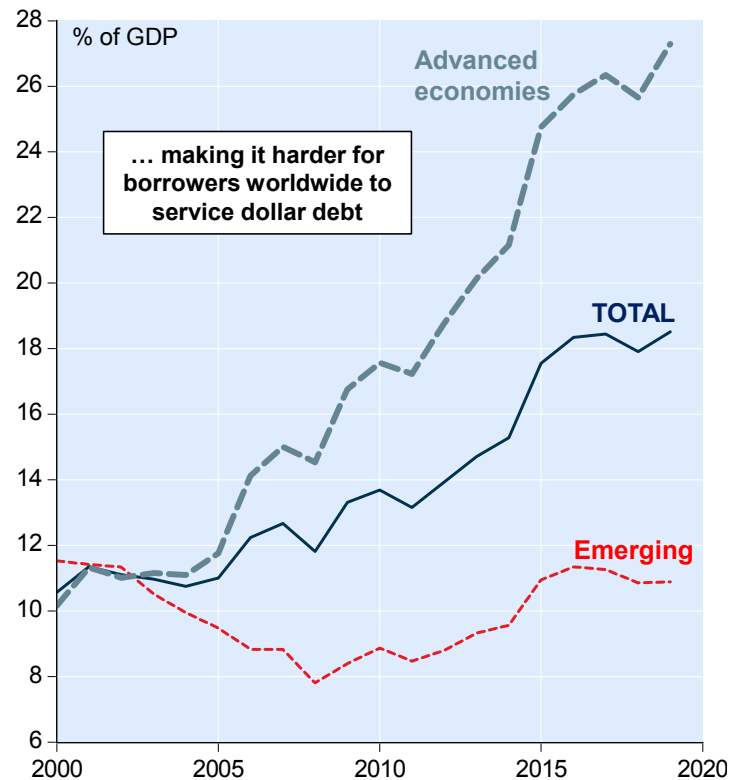
The coronavirus pandemic has not surprisingly prompted a rush towards safe havens, including the world's reserve currency. The broad U.S. dollar indeed reached an 18-year high this month. That's bad news for an already-weakened global economy. In theory, USD appreciation is a positive development for non-U.S. economies because their exports are suddenly more competitive. But that impact tends to be more than offset by headwinds generated through the financial channel. According to the Bank for International Settlements roughly 35% of global trade is financed by the banking system, with around 80% of that denominated in U.S. dollars. So, if the cost of financing (e.g. USD exchange rate) rises, this will slow lending and borrowing in U.S. dollars, hurting trade volumes. That explains the observed negative correlation between growth in global trade volumes and that of the Broad Dollar index. Another element of the financial channel which can turn an appreciating greenback into a major problem is the record amount of USD-denominated debt. A stronger USD can indeed make it harder for firms to service their dollar credit. Note that USD-denominated debt held by non-bank borrowers outside of the U.S. stood at around US\$12 trillion at the end of last year, or nearly 19% of World GDP excluding the U.S. As today's *Hot Charts* show, that's roughly double the exposure of 20 years ago.

### World: Dollar surge threatens global financial stability

Nominal Broad U.S. dollar, monthly averages



USD-denominated debt held by non-bank borrowers outside of U.S.





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